

Kentucky Department of Education Frequently Asked Questions



1. When is the audit report due?

The audit report is due no later than October 31, 2005.

2. What if the audit report cannot be filed on October 31, 2005?

Requests for an extension, fully describing the reasons for the request, must reach the Division of School Finance by October 17, 2004. The request should be addressed to Tammy Page. If the request is addressed only to School Finance, this may cause a delay. The request may come from either the auditor or the local district.

3. How many hard copies of the audit should be filed?

Only one hard copy of the audit report needs to be filed. We do not need more than one copy for the financial and the A-133 reviews.

4. How should the audit be filed electronically?

The audit report should be delivered in one of the following formats: Text documents shall be submitted in Microsoft Word and/or Adobe Acrobat (PDF) formats. Spreadsheet documents shall be submitted in Microsoft Excel and/or Adobe Acrobat (PDF) formats. No more than three (3) files total (text and spreadsheet) will be accepted electronically. If the audit report cannot be delivered electronically in the above formats, please contact Tammy Page to make alternate arrangements.

5. What is the address the electronic audit report should be sent to?

Finrepo@kde.state.ky.us with "Audit" in the subject line.

6. Should the Data Collection Form be sent in with the audit report?

No. One copy of the audit report, along with the Data Collection Form, should be submitted by the district, directly to the Single Audit Clearinghouse.

7. What are the critical dates for school district audits?

October 17, 2005 – Request for extension due

October 31, 2005 – Audit reports due (hard and electronic)

May 15, 2006 – Audit contracts due

8. Should the audit report include responses to the Findings & Questioned Costs and Management Letter Points?

Appendix 1, Point 10 states “responses to findings and the management letter shall be submitted as a part of the audit report”.

9. What should be included in the audit report for the High School Activity funds?

The High School Activity Fund Schedule should categorize each individual activity fund by account, reflecting all activity funds of the high school, but not sub accounts as available in EPES.

10. What about elementary and middle school activity funds?

Elementary and middle school activity funds should be summarized in a single line per school.

11. Should there be an exit conference with the district?

Even if the district does not request an exit conference, the auditor should meet with the district to discuss the audit.

12. Should the audit adjustments be given to the district even if they don't request them?

Yes. Adjustments need to be made after the audit has been completed and before the revised AFR is submitted to KDE.

13. Explain the financial review performed by the Division of School Finance.

KDE staff will use a modified PPC checklist to review the GASB Statement of Net Assets and GASB Statement of Activities.

Fund balances are compared on each page within the audit report. If the fund balances do not match or easily reconcile, the auditor is contacted and requested to provide an explanation and/or a corrected audit page.

Fund balances and state and federal revenues in the audit report, government and proprietary funds, are compared to the school district's Annual Financial Report and the Balance Sheet. If there are discrepancies, a letter is sent to the district requesting a written explanation or transfer revised MUNIS Reports.

*The audit report is reviewed for inclusion of the High School Activity Fund Schedule and a single line schedule for the Elementary and Middle School activity funds. Do not summarize activity funds. If the schedule(s) are not included in the audit report, the auditor is contacted and the schedules are requested. If **any** of the activity funds have a deficit balance, the district will be asked to provide a corrective action plan.*

Findings and Questioned Costs are reviewed. If a response has been included in the audit report, it is reviewed. If the response is not sufficient or if no response was provided, the district will be asked to provide a corrective action plan.

Management Letter Points are reviewed. If a response has been included in the audit report, it is reviewed. If the response is not sufficient or if no response was provided, the district will be asked to provide a corrective action plan.

If Findings and Questioned Costs and/or Management Letter Points have been repeated from the previous year, this is also cited in the letter.

14. When the state and federal revenues are reviewed, do on-behalf payments have to be identified?

Do not identify on-behalf within the statements. However, the auditor should provide a footnote in the audit report showing the amount of on-behalf payments. Otherwise the reviewer will have to write a letter.

15. Should auditors explain that on-behalf payments are not budgeted?

Auditors should footnote the Budget to Actual Statements to indicate that on-behalf are not budgeted.

16. Is it a requirement that the sheriff may not deduct the collection fee before the tax funds are remitted to the school district?

According to KRS 160.500, and more specifically OAG 82-587, the sheriff may not deduct the collection fee for collecting school taxes before the school tax funds are presented to the depository for the school district.

17. What is current sick leave liability?

Government funds are required to be reported on the modified accrual basis of accounting. The amounts owed to all employees that have given notice to retire at June 30 but not paid should be reported as current sick leave liability. The Government-Wide statements are required to be reported on the full accrual basis. The amounts expected to be paid during the next operating cycle or fiscal year should be reported as current sick leave liability. Proprietary fund current sick leave is also to be reported on the full accrual basis.

18. How should Management Letter Points be reported in the audit report?

Management Letter Points should be reported by each individual school.

19. Can Fund 2 have a fund balance?

Yes, Fund 2 can have a fund balance if it is comprised of technology (KETS) funds, whatever is left in Project 162X. The audit report and the AFR should match.

20. Should the district and the auditor compare the audit report and AFR before submitting?

Yes. The district should make the audit adjustments. Then, the auditor and the finance officer should compare the audit report with the AFR to make sure they agree. When they agree, the finance officer should then transfer the revised MUNIS Reports to KDE.

21. Should the Capital Project Funds Budget be a part of the audit report?

No.

22. Other issues:

- a. All debt should be recorded in the GASB financial statements, including the portion for which SFCC is responsible.
- b. Technology Grant – Local revenue in the technology grant should not be deferred. Districts will have Fund 2 balance equal to what is remaining in Project 162X.
- c. Major Funds – The General Fund is always a major fund. KDE has mandated that Special Revenue Fund will always be a major fund. Calculations should be made for other funds based on the criteria provided in GASB 34.
- d. Districts should make sure that they have a Board policy regarding fixed asset capitalization including when a fixed asset inventory should be taken. An inventory of fixed assets is not expected for the year a valuation is made.
- e. Districts are responsible for writing the MD&A required by GASB 34. They can receive assistance from their auditor, but the auditor cannot write the MD&A.
- f. Careful attention should be paid to entries for recording bond issuance and refundings (See GASB 7, 23 & 34). Debt issuance costs should be capitalized and amortized under full accrual and expenses under the modified accrual basis of accounting.
- g. A deficit in the Statement of Net Assets does not violate the KRS but does require disclosure. KDE will look at the Government and Proprietary Fund Financial Statements, shown in RSI, as it pertains to deficits.
- h. KDE does not expect ANY qualification in the audit report. Any items requiring a qualification should be reviewed by KDE prior to issuing the report. However there may be qualification on the financial statements and/or the federal funds on the Summary of Findings & Questioned Costs.

- i. The threshold for the determination of Major Programs for the Single Audit Report is **\$300,000**, not \$500,000.
- j. Two thirds of the districts will be reporting for the third year under GASB. Most of these will have received clean opinions for the prior two years and will qualify as **low risk** on the Schedule of Findings and Questioned Costs.

23. What items are reviewed for GASB 34?

For the districts, the MD&A must have the following sections:

- a. Financial Highlights,*
- b. Government-Wide (District-Wide) Financial Statements Description,*
- c. Fund Financial Statements Description,*
- d. Notes to the Financial Statements Description,*
- e. Government-Wide (District-Wide) Financial Analysis and*
- f. Budgetary Implications.*

For the auditors, the audit report must show the following:

- a. Statement of Net Assets** Total Net Assets
Must agree to **Statement of Activities** Net Assets – End of Year,
- b. Balance Sheet - Governmental Funds** Total Fund Balances
Must agree to **Statement of Revenues, Expenditures and Changes in Fund Balances** – Fund Balances - End of Year, and
- c. Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities:**
 - 1. Capital Assets must agree to **Statement of Net Assets** Total Noncurrent Assets – Governmental Funds,
 - 2. Certain Liabilities must reconcile to **Statement of Net Assets** Interest Payable, Current and Noncurrent Bond Obligations, Current and Noncurrent Sick Leave and Current and Noncurrent Lease Payments.

Following is an example of a MD&A.

As management of the School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction within the body of the financial statements.

FINANCIAL HIGHLIGHTS

The beginning unreserved general fund balance for the district was \$

The District completed the local facility plan in fiscal year 2005, and in line with this approved plan, the District issued bonds in the amount of \$ for renovation of xxx and xxx Elementary Schools. Debt payments on this issue did not impact the financial reports of the District in fiscal year 2005. Debt service related to this issue will be \$, with principal of \$ and interest of \$. The School Facilities Construction Commission (SFCC) will be required to pay % of the debt service related to this bond issue, or \$.

The District's outstanding debt, excluding KISTA, and including the new issue is \$ (principal and interest combined) at the end of fiscal year 2005.

The majority of District revenues were derived from state sources (%) and local taxes (%). Regular instruction, student support services, instructional support services, and school administration accounts for % of the District expenditures. Central support service expenditures were pupil transportation %, maintenance and operations %, and business functions %, with central office support, non-instructional, and fund transfers making up %.

The District's unrestricted operating fund (General Fund) had \$ in revenues, excluding on-behalf payments, which consisted mainly of Ad Valorem taxes, State SEEK, and Utility tax receipts. Ad Valorem was %, state SEEK was %.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private - sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages ____ of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages ____ of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages ____ of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ for Governmental Activities, and \$ for Business Type Activities as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2005 as compared to June 30, 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current Assets		
Noncurrent Assets		
Total Assets		
Current Liabilities		
Noncurrent Liabilities		
Total Liabilities		
Net Assets		
Investment in capital assets (net of debt)		
Restricted for capital projects		
Unreserved Fund Balance		
Total Net Assets		

Comments on Budget Comparisons

- ❖ Excluding on-behalf payments of \$, the General Fund budget compared to actual revenue varied slightly from line item to line item with ending actual balance being \$ or % more than budgeted due to unanticipated increases in SEEK funding and increased ad valorem and utility tax collections.
- ❖ Actual General Fund expenditures, net of on-behalf payments of \$, compared to budget expenditures, net of contingency allotments, was \$ or % less than budget due to staff attrition, and realignment of salaries.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2005, for selected funds.

Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Component Unit
Local sources					
State sources					
Federal sources					
Other sources					
Total Revenues					
Expenses:					
Instruction					
Student support					
Inst. Support					
District admin.					
School admin.					

Business support
Plant operations
Student transp.
Non-instruct.
Other
Community support
Debt service
Building renovation
Food services
Total expenses
Revenue over (under)
Expenses

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2005 - 2006 with a % contingency. Significant Board action that impacts the finances includes a % pay increase for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives such as the Continuous Assessment Plan, Brain Compatible Learning, and Kinderkamp programs.

Questions regarding this report should be directed to (name) Superintendent , (name) Director of Business and Operations at xxx-xxx-xxxx or by mail at xxxx Central Avenue, P.O. Box xxx, City, KY 4xxxx.

Kentucky Teachers' Retirement System Audit Considerations

An audit of a local school district in accordance with Government Auditing Standards requires the auditor to test the district's compliance with applicable laws and regulations under the Kentucky Teachers' Retirement System (KTRS).

24. Who can I contact concerning KTRS laws?

If you have questions, please call Mark Whelan, KTRS Director of Finance, at (502) 848-8640.

25. Which local school district employees are covered under KTRS?

KRS 161.220(4) requires that employees who occupy a position requiring certification or graduation from a four-year college or university must participate in KTRS. Each employee should have a written job description that indicates these requirements.

26. Do substitutes and part-time employees, including KTRS retirees, contribute to KTRS?

Yes, effective July 1, 2002, KRS 161.612 stipulates that any individual occupying a position on a part-time basis that requires certification or graduation from a four-year college or university as a condition of employment and any individual providing part-time or substitute teaching services that are the same or similar to those teaching services provided by certified, full-time teachers shall be a member of KTRS.

27. What about the employees who occupy a position not requiring certification or a four-year degree?

Employees occupying these positions should contribute to the County Employees Retirement System (CERS) and to social security. Examples of these positions are bus drivers, cafeteria workers, clerical workers, custodians, timekeepers and gatekeepers.

28. Which compensation should have KTRS contributions withheld?

KRS 161.220(10) defines annual compensation as the total salary received by a member for all services performed in employment covered by the retirement system during a fiscal year. However, the compensation must be available to all of the local school district employees to be allowed under KTRS. Examples of non-allowed compensation (for which KTRS contributions would not be withheld) are vehicle usage and mileage reimbursement, distinguished educator pay, and health insurance reimbursements.

29. What is the employee's KTRS contribution rate?

Employees contribute 9.855% of their gross salary to KTRS. However, they do not contribute to social security.

30. What is the employer's matching KTRS contribution rate?

The local school districts only pay employer matching on those employees who occupy federally funded positions. Effective July 1, 2004, the employer-matching rate for employees occupying federally funded positions is 13.105%.

31. Who pays the matching for employees not in federally funded positions?

The Commonwealth of Kentucky contributes 13.105% of the gross salary of all local school district KTRS participants (less matching received from federally funded positions).

32. When must a local school district remit contributions to KTRS?

KRS 161.560 requires that the employer forward all contributions to KTRS no later than 15 days following the end of each payroll period.

33. When is the local school district's KTRS annual report due?

Each KTRS employer must submit an annual report by July 15 of each year. This report lists the wages paid and contributions withheld for each employee contributing in KTRS. On a test basis, please verify that the wages reported on the annual report agree with the payroll records.

Attached is KTRS background information and a sample footnote for compliance with GASB 27.

ATTENTION: KTRS Reporting Officials

This information provides required information for inclusion in your school district's annual financial report. If you are not involved with the financial statement preparation, please forward this document to the school district's FINANCIAL/ACCOUNTING MANAGER or the school district's outside auditor.

The Governmental Accounting Standards Board (GASB) Statement 27, Accounting for Pensions by State and Local Government Employers, which became effective for periods beginning after June 15, 1997, requires that certain actuarial and pension disclosures by school districts be included in their financial statements. The Teachers' Retirement System of Kentucky is furnishing this information so that districts can comply with the GASB requirements.

Additional information required by GASB Statement 27, such as covered payroll, amount of employee contributions, amount of state contributions made on behalf of the employee, etc., will have to be derived from the reporting district's payroll records. Additional questions may be resolved by consulting with your school district financial auditor.

Plan Description

The Teachers' Retirement System of the State of Kentucky (KTRS) was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan established to provide pension benefit coverage for local school districts and other public educational agencies in the state.

Types of employees covered

As of June 30, 2004, a total of 201 employers participated in the plan. Employers are comprised of 176 local school districts, 19 Department of Education Agencies and other educational organizations, 5 universities, and the Kentucky Community and Technical College System. According to KRS 161.220 " . . . any full-time teacher or professional occupying a position requiring certification or graduation from a four- (4) year college or university . . . " is eligible to participate in the System.

Benefit provisions

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service

Participants who retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with retirement accounts established before July 1, 2002, receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members with retirement accounts established after July 1, 2002, receive monthly payments equal to two (2) percent (for accounts with less than 10 years of service) or two and one-half (2.5) percent (for all years once 10 years of service is obtained) of their final average salaries for each year of credited service. Non-university members who retire after July 1, 2004, receive three (3) percent of their final average salaries for the years in excess of thirty (30) years. The final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. The system also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost-of-living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Funding Policy

Contribution rates are established by Kentucky Revised Statutes (KRS). Members are required to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS.

The Commonwealth of Kentucky is required to contribute 13.105% of salaries for its non-university members and 13.84% of salaries for university members.

If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest are refunded to the employee upon the member's request.

SAMPLE NOTE DISCLOSURE:

KENTUCKY LOCAL SCHOOL DISTRICT

Notes to the Financial Statements
for the Year Ended June 30, 20XX

Note X. Pension Plan

Plan Description - The [Kentucky Local School District](#) contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple-employer, defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy - Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program that pays for salaries also pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four-(4) year college degree or certification by KY Department of Education (KDE).

The [Kentucky Local School District's](#) total payroll for the year was \$_____. The payroll for employees covered under KTRS was \$_____. For the year ended June 30, 20XX, the Commonwealth contributed \$_____ to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 20XX, were \$_____, which represents those employees covered by federal programs.